

Washington, D.C. – Congressman Wally Herger (R-CA) today delivered remarks on the House floor in support of H.R. 674, bipartisan legislation he introduced to repeal the 3% withholding provision. The provision requires government agencies at all levels (federal, state, and local) to withhold 3 percent of their payments to businesses for goods and services. This amount is held as a down payment of the business's federal income tax liability. There has been broadly expressed concern among the small businesses that the provision could wipe out their already slim profit margins. Recently, House Leadership had announced that repealing the 3% withholding provision is a top priority and that action on the legislation was to be expected later this fall. Herger's legislation, which currently has 248 cosponsors, has been strongly supported by a broad coalition of business groups, including the Chamber of Commerce, National Association of Manufacturers, and National Federation of Independent Businesses. Herger's speech follows below:

"Mr. Speaker, the "3% withholding provision," which will come into effect if Congress does not act, essentially forces businesses that have contracts with the government to forgo 3% of their payments as a down payment on their tax bill. This represents yet another burden on our nation's small businesses and job creators, the lifeblood of our economy. As a small business man myself, I know firsthand about the negative impact of burdensome taxes and cumbersome regulations. Many small businesses that contract with the government operate on very slim profit margins, so a three percent tax will create serious cash flow problems for them at a time when so many are struggling.

"Aside from that, this provision will actually cost the government money. Federal, state, and local governments are already facing unprecedented deficits, and yet agencies will have to create new collection systems and may face higher costs for goods and services if this is not repealed. The Department of Defense has said that, for DoD alone, the provision will cost \$17 billion to implement. That's \$7 billion more than the total revenue the tax is expected to raise. In another example of Washington math, the provision will force the government to spend more money and end up eliminating jobs and hurting small businesses.

"Congress can certainly do better - we must do better. 20 million Americans are out of work, and our small businesses must have the certainty they need to create more jobs. We cannot punish law-abiding businesses because a few contractors do not pay their taxes. Instead, the government should stop awarding government contracts to businesses that do not pay. To that point, OMB and the Treasury Department have announced several initiatives to prevent contracts from going to companies that are delinquent on their taxes.

“We’re looking for something that we can do right now to help job creation in America – well, this is it. Repealing the 3% withholding provision will provide a significant benefit to small businesses just by getting Washington out of their way. If we don’t repeal it, we will put small businesses, jobs across America, and our efforts at economic recovery at greater risk. It’s time we took this harmful, job killing provision off the books forever.”